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ABSTRACT

An increasingly popular economic development tool to improve the success rate of new firms is the small business incubator. These are buildings in which a number of new or growing businesses can locate and operate at a much lower overhead cost than in conventional space where market rates prevail. Incubator facilities are characterized by access to shared, centralized services such as clerical and administrative help, receiving and shipping facilities, conference rooms, computers and word processors, and business assistance resources. Incubator facilities are generally targeted toward small firms that may lack the management, technical, and financial ability to survive on their own. Developed by the Illinois Department of Commerce and Community Affairs, this guide provides guidelines on the management aspects of a small business incubator. It includes advice on matters such as incubator staffing, marketing the facility, tenant selection, support services, business assistance, financial aids for tenants, operating budget guidelines, and other areas that will generally be of concern to a new incubator manager or management organization. (KC)

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MANAGING A SMALL BUSINESS INCUBATOR

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ILLINOIS DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS

MANAGING A SMALL BUSINESS INCUBATOR

Illinois Department of Commerce and Community Affairs
Office of Urban Assistance

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INTRODUCTION

During the past several years, there has been a growing interest in an economic development "tool" called the small business incubator -- a multi-tenant facility which generally offers below or at-market rents, shared support services, business assistance, and access to financing and venture capital. The tenants in such facilities may range from firms involved in science and technology or research and development, to service businesses and manufacturers, or any combination thereof.

In Illinois, a number of small business incubators have been, or are being, developed; and it is likely that similar facilities will be established throughout the state as their popularity increases. As a part of Governor Thompson's "Build Illinois" legislative program, which was enacted in mid-1985, a Small Business Incubator Program was established. It provides for state designation and financial assistance for incubators. This should serve to heighten the interest in the development of incubator facilities even further.

In 1984 the Illinois Department of Commerce and Community Affairs, in cooperation with the U.S. Small Business Administration, developed a guide called Starting a Small Business Incubator, A Handbook for Sponsors and Developers. This handbook has recently been revised and expanded in order to include a number of useful guides and contact points to help interested organizations explore the incubator concept as a development tool and get started.

The department has also published a technical assistance guide Guidelines for Determining the Feasibility of a Small Business Incubator. This guidebook includes step-by-step instructions and sample forms for communities to determine the viability of an incubator. The guidebook is a hands-on approach to community analysis of its economic makeup, entrepreneurial spirit and support network which makes the incubator successful.

Managing A Small Business Incubator is a companion document that provides some guidelines on the management aspects of a small business incubator. It includes advice on such matters as incubator staffing, marketing the facility, tenant selection, support services, business assistance, financial aids for tenants, operating budget guidelines and other areas that will generally be of concern to a new incubator manager or management organization.

I. INCUBATOR STAFFING AND OPERATION

The most important aspect in the establishment and ongoing operation of a small business incubator is a carefully selected, well-trained management staff. The two key staff functions needed are an incubator manager and a facility services supervisor. The number of additional clerical or paraprofessional staff functions needed will depend on the size of the incubator and the specific facility services needs of the tenants. In the start-up period, it may be necessary for one individual to handle the direct services to the tenants in addition to establishing office management systems. The incubator sponsor should utilize temporary help until the work level will allow the hiring of other full-time personnel.

A. SMALL BUSINESS INCUBATOR MANAGER

The incubator manager should have significant business management training and experience and will be responsible for the overall management of the facility, including recruitment of tenants, hiring and supervision of key staff members, provision of services to tenants, management of the building, cooperation with the advisory board and financial oversight of the incubator operations.

1) Typical Manager's Duties and Examples of Work:

- Designs and implements an overall marketing program to attract qualified tenants;
- Pre-screens potential tenants and assists the appropriate management organization's committee in screening and advising prospective tenants;
- Hires and supervises other incubator staff personnel required to operate the facility;
- Oversees the physical management and maintenance of the incubator, including the hiring of contractors to rehabilitate space, janitorial services, routine maintenance, refuse collection, snow removal, etc.;
- Develops a program of facility services needed by the tenants, including receptionists, typing and word processing, photocopying, etc.;
- Identifies and organizes a network of professional specialists and other resources able to provide needed technical and business management services for the incubator tenants;
- Establishes (where feasible) a local source of seed capital and assists tenant firms in locating other available sources of financial assistance;
- Provides advice and encouragement to the tenants and brokers the services they need to function properly;
- Prepares financial and operating plans for the incubator;

- Serves as executive staff to the incubator's advisory board or governing body;

- Makes presentations to various civic and community groups concerning the incubator, as well as keeps the media informed about new tenants and the overall growth and development of the incubator;

- Promotes interaction and exchange of ideas among the incubator tenants;

- Initiates new programs and activities to help insure the success of the incubator;

- Tracks and applies for available funding from state and federal sources to help finance the incubator's operations;

- Assists the incubator advisory or governing board in its annual fund raising effort (if necessary);

- Participates in conferences and workshops aimed at furthering the manager's knowledge about incubator operations and management, small business management techniques, aids for small businesses and/or other concerns relating to the manager's role.

2) Requirements of Education and Experience

- Requires knowledge, skills and mental development equivalent to the completion of four years of college in programs such as business or public administration.

- Requires knowledge of business principles and practices, as well as small business finance, building management and leasing and negotiation.

- Requires knowledge of local government, non-profit organizations, educational institutions and the local business community and their economic development programs, procedures and staff.

- Requires the ability to manage programs and facilities.

- Requires the ability to analyze administrative and management problems of the tenant firms and then to adopt an effective course of action.

- Requires the ability to meet and interact with entrepreneurs, local government, educational and business leaders, community organizations and state and federal officials.

- Requires the ability to speak effectively before various groups and organizations, and to communicate effectively verbally and in writing.

- Requires the ability to plan for and to coordinate various governmental, educational, community and business resources.

B. SUPERVISOR OF FACILITY SERVICES

The supervisor of facility services would oversee the in-house clerical and related services that will be needed by the tenants, as well as handling such activities as tenant billing, purchasing, bookkeeping, records management, assistance with the brokering of professional business services, etc.

1) Typical Supervisor's Duties and Examples of Work:

- Plans, directs, coordinates and reviews the activities of a staff engaged in clerical and related office activities; and assists, as needed, in the performance of a variety of complex office functions involving bookkeeping, records management, purchasing and other critical functions such as documentation of tenants' use of facility services and tenant billing.

- Oversees the establishment and maintenance of filing systems of pertinent records and information, and the procedural functions involved in the processing of requisitions and vouchers; develops and recommends new and revised policies which affect or relate to the incubator operations and/or facility services; determines personnel and budgetary needs and makes recommendations to the incubator manager; and designs and implements new and revised procedural methods and techniques as needed.

- Provides technical consultation or administrative assistance in the preparation of budgets, and maintenance of fiscal and other financial records used in controlling expenditures and projecting financial needs; prepares budgets for the operations supervised; serves as the authorized agent for the purchase of equipment and supplies; and recommends staffing requirements.

- May interview applicants for employment and assist in selecting employees; plans and directs in-service training of employees; analyzes workload, develops production standards, and establishes priorities and deadlines for work projects; initiates and implements new methods and techniques for greater operational efficiency; administers personnel policies; evaluates performance of office personnel; and recommends pay increases, promotions, or other appropriate action.

- Meets with tenants to discuss their clerical and administrative support needs and assists with the negotiation of leases with prospective tenants.

- Serves as administrative assistant to the incubator manager, helps schedule the manager's activities, and assists with the brokering of business support services for the tenants.

- Serves as secretary to the incubator advisory board or governing body.

- Attends and participates in various staff meetings to keep informed of proposed changes in current policies and activities; gathers background data to assist the incubator manager in the making of decisions and preparation of speeches and reports; conducts special projects and research studies; and prepares detailed, factual reports on the program as required.

- Performs other related duties as required or assigned by the incubator manager.

2) Requirements of Education and Experience

- Requires knowledge, skills and mental development equivalent to the completion of two years of college in programs such as business, office procedures and management, business education or administration.

- Requires three years of clerical supervisory or related supervisory experience which has provided a thorough knowledge of business English, clerical methods and techniques and principles and practices of office management.

- Requires knowledge of bookkeeping principles and practices.

- Requires ability to originate, develop and implement flexible and creative office procedures from general policies.

- Requires ability to manage, plan, assign, supervise and coordinate work of the staff.

- Requires ability to effectively communicate information orally and in written form.

C. ORGANIZATION OF THE INCUBATOR

Although any of a number of organizational structures are possible, most small business incubators are managed on a daily basis by one individual, the incubator manager. Policy guidance often is derived from a Board of Directors of the sponsoring organization, or a combination of the sponsor and various community groups which promote the incubator. Successful incubators often utilize a client advisory board to assist with screening of potential tenants and to provide mentor services to the tenant. A sample organization chart follows:

INCUBATOR ORGANIZATION CHART

D. INSURANCE FOR THE FACILITY

One of the first tasks of the incubator manager should be to consult an insurance agent or broker so that a comprehensive insurance plan can be designed to meet the facility's needs. A basic package may include the following types of protection:

Fire Insurance -- covering damage to the premises and equipment caused by fire, explosion or smoke. The cost of insurance for the incubator would depend on the type of construction used in the facility and the types of tenants who will likely be renting space in the building. It will also depend on such factors as the number of fire walls or fire divisions in the building, the number of businesses that may be included in each fire division, as well as the type of fire protection system the incubator has. Generally, other factors being equal, the higher a construction rating, the lower the insurance costs. The lowest rates are those for "fire resistant" buildings (block and poured concrete floor and roof construction); the next highest rates are for incombustible structures (poured concrete foundation, block walls and steel framed roof); and the highest rates are for frame constructed buildings or masonry buildings with wood frame roofs.

Liability Insurance -- protecting the incubator from financial loss due to any claims of bodily injury or property damage in connection with the facility's operation. Tenants should be required to carry comprehensive general liability insurance. This would include coverage for the tenant's premises and operations, contractor's protective liability and personal injury liability, in addition to any other coverage deemed essential to the lessee's business.

Crime Coverage -- reimbursing for losses due to robbery, burglary, employee dishonesty or vandalism.

Automobile Insurance -- encompassing both physical damage and liability coverage for any vehicle owned by the incubator.

Workers' Compensation Insurance -- covering injuries and loss of pay related to employee accidents on the job. Yearly premiums are based on total payroll and can run from $0.15 to $25 per $100 in payroll. For more information on Workers' Compensation, contact the Illinois Industrial Commission, 312-793-6611, or 1-800-972-4604.

Unemployment Insurance -- providing an employee with income during periods of unemployment. (Required by Federal law.) To determine liability, complete a "Report to Determine Liability" and submit it to the Unemployment Insurance Division of the Department of Employment Security. To obtain this report, contact the Department at 910 South Michigan in Chicago, 60605, telephone 312-793-4880.

If it is determined that you are liable, an account number will be assigned and reporting forms mailed to you. Contributions are paid on the first $8,500 of wages paid to each worker per calendar year and are due no later than the last day of the month following the quarter in which the liability is incurred. Separate reports must be submitted for each quarter.

Even if no contribution is due, reports must be filed each quarter listing each worker's total wages. As a rule, an employer is responsible for making contributions that equal 3.7 percent of an employee's yearly gross salary up to the $8,500.

Fidelity Bonds -- bonding for employee(s) with access to cash receipts and other company funds, guaranteeing against financial loss from embezzlement.

Employee Health and Life Insurance -- providing workers and dependents with financial benefits in the case of illness or death. If the staff is too small to qualify for group benefit policies, the incubator sponsor could consider taking out individual policies on each employee.

Several insurance agents or brokers should be contacted for bids on comparable coverage. It would also be prudent to examine the "track records" of insurance carriers under consideration with respect to the manner in which they handle claims.

E. FINANCIAL MANAGEMENT

One of the incubator manager's key responsibilities is the management of the facility's fiscal affairs, including the establishment of a set of books and the preparation and oversight of the annual operating budget. This section provides some guidelines for these key activities.

1) Accounting

A knowledgeable accountant can help set up an appropriate bookkeeping system. Essential records in the accounting system will include:

- A periodic summary of receipts taken from tenant billings and payments;
- An expense ledger, tallying both cash and chucks disbursed for expenses such as rent, payroll and accounts payable;
- An inventory purchase journal showing materials received, accounts payable and cash available for future purchases;
- An employee compensation record listing hours, pay and withheld deductions; and
- An accounts receivable record.

Daily income and expense data should be posted monthly in a permanent ledger for periodic use by an accountant in preparing an income statement and balance sheet.

The income statement reflects the financial health of an operation over a given period, reveals whether the operation is reaching budgetary objectives and provides the final evidence of success or failure in dollars and cents. Income statements can be prepared monthly, quarterly or annually.

The balance sheet takes stock of the organization's financial standing on a given date, usually each fiscal year's end. By weighing the organization's assets against its liabilities -- what is owned versus what is owed -- the organization can derive net worth (equity) and calculate a debt-to-net worth ratio.

2) Funding Plan and Operating Budget

In addition to a good set of books, other important financial management tools are the funding plan and the annual operating budget. These two documents should be developed at the same time to ensure that the incubator will have necessary funds to support its staff and programs.

Funding Sources -- In order to build an identity with the private sector and maintain a broad based community support, the incubator should seek most of its initial funding from local sources. Support might be solicited from private citizens, local government, financial institutions and community groups. The incubator could be eligible for state and federal funding if it can demonstrate that it can create jobs.

The goal of the funding effort should be to make the administration and management of the incubator self-supporting as soon as possible. In addition to rental income, the incubator can obtain revenues from fees for services and management assistance. Consideration could also be given in some instances to taking an equity position in certain businesses located in the incubator in lieu of fees for services rendered.

Budget -- Income and expenses must be planned for carefully in order to determine the proper rent schedules and any potential shortfall that may need to be covered from funding from non-rental sources. Income and expenses should be projected on a monthly basis, as well as an annual basis. Utilizing the incubator's monthly income statements, it will be possible to compare the expenditures with the operating budget to help determine potential financial problems or to adjust the budget if this is appropriate.

The main categories of budget items are salaries and benefits for office personnel and operating expenses. Specific items to be included in each category include the following:

SALARIES AND BENEFITS

Salaries for:
- Incubator Manager
- Supervisor of Facilities Service
- Receptionist/Typist
- Word Processing Operator
- Account Clerk/Typist

Benefits:
- FICA
- Workers' Compensation
- Unemployment Insurance
- Health Insurance

OPERATING EXPENSES

Office Overhead:
- Janitorial
- Snow Removal
- Lawn Care
- Security
- Water/Sewer
- Electrical/Gas

Professional Services:
- Accounting
- Legal

Advertising and Promotion:
- Media Ads
- Fund Raising
- Brochures/Sales Aids

Real Estate Taxes
- Insurance
- Repairs
- Commodities
- Telephone
- Postage
- Equipment Rental

Travel and Meetings:
- Business Meetings
- Conferences
- Seminars

Other:
- Books, Subscriptions
- Memberships
- Miscellaneous

Forms similar to those in Part F on the following pages can be used as a guide in preparing the annual budget.

3) Options for Reducing Expenses

Certain office expenses will be fixed by local factors beyond the control of the incubator's management. The salaries set for office personnel, for example, will be largely controlled by prevailing salary rates. In this and other areas, however, costs can be reduced by negotiating, by sharing with other organizations, or by asking for donations of materials and services.

Salaries and Benefits -- The largest budget item, the salary of the incubator manager, perhaps can be reduced or eliminated at start-up by asking a major company to loan an executive for the first six to twelve months of operation. As an alternative, the executive's salary might possibly be shared with the company.

There are other options. This might include merging with an existing organization and using part of the organization's staff or seeking out part-time volunteers and student interns for various staff positions.

Office Overhead -- Overhead expenses can be reduced by sharing office space with other organizations or by asking local companies, schools, government agencies, or community groups to donate space, equipment, furniture, or supplies.

Professional Services -- Payment for professional services might be reduced by asking legal and accounting firms to donate their time as a public service.

Travel and Meetings -- Travel expenses can be reduced by restricting long-distance travel or, perhaps, by asking corporations to loan corporate vehicles for necessary office travel. Meeting expenses can be reduced by holding meetings and seminars in local corporate or other available facilities.

Advertising and Promotion -- Publicity expenses possibly can be reduced by asking advertising agencies and public relations firms to donate design and production services (copy writing, layout, photography, slide-tape production, videotaping, and so on). Further, local printers might be willing to donate paper and to print materials at cost, and experienced local fund raisers might donate their time.

F. OPERATING BUDGET WORKSHEET

_____
Name of Incubator

19___

INCOME:

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
Rent:												
Unit 1												
Unit 2												
Unit 3												
Unit 4												
Unit 5												
Unit 6												
Unit 7												
Unit 8												
Unit 9												
Unit 10												
Facility Services:												
Clerical/Word Process												
Photocopying												
Collating												
Phone Answering												
Mail Room Services												
Telex/Facsimile Serv.												
Microcomputer Use												
Furniture Leasing												
800 Number Service												
Other_____												
Business & Prof. Services												
Business Planning												
Accounting												
Loan Packaging												
Computer Programming												
Other _____												
_____												
Other Income:												
_____												
_____												
TOTAL INCOME												

OPERATING BUDGET WORKSHEET
Page 2

19___

EXPENSES:

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
Salaries:												
Incubator Manager												
Sup. of Facil. Serv.												
Receptionist/Typist												
Word Process. Operator												
Acct. Clk./Typist												
Fringe Benefits:												
FICA												
Workers' Compensation												
Unemployment Insurance												
_____												
Health Insurance												
Maintenance:												
Janitorial												
Snow removal												
Lawn Care												
Security												
Water/Sewer												
Electrical												
Gas												
Real Estate Taxes												
Insurance												
Repairs												
Commodities												
Telephone												
Postage												
Equipment Rental												
Accounting/Legal												
Advert. & Promotion												
Travel & Meetings												
Books, Subs., Memberships												
Miscellaneous												
TOTAL EXPENSES												
NET OPERATING PROFIT/ LOSS												

II. MARKETING THE INCUBATOR

One of the main purposes of the small business incubator is to generate new jobs through the startup or expansion of small firms that can benefit from an incubator location. As such, one of the most important tasks of the incubator staff is tenant recruitment. The incubator management will need to design a carefully prepared strategy to help that suitable tenant candidates come to the incubator in significant numbers. Several approaches can be taken, preferably in concert with one another, to market the incubator. One of the key tactics should be to identify target markets for the incubator and directly market such targets. Other important marketing tactics include the distribution of information to, and contact with, key groups and appropriate business leaders and professionals; and the promotion of the incubator through advertising, publicity and other related promotional efforts. This section of the handbook will discuss these potential tactics more fully and suggest ways that they can be employed.

A. TARGET MARKETS FOR THE INCUBATOR

Depending upon the incubator's location and the nature of the local or area economy, markets such as the following could be targeted in the incubator's search for tenants.

1) University/Technology Spinoffs

Irrespective of its location, incubators might attract potential entrepreneurs from university research programs of engineering and science schools. Targeting the incubator's efforts specifically for technology-based ventures is a way to capitalize on the potentially high growth and returns within these industries. University-connected incubators such as those at Georgia Tech and Carnegie-Mellon, have adopted this orientation to take advantage of potential synergies between firms and their institutions' research capabilities; to provide entrepreneurial opportunities for faculty, staff and students; and to generate future tenants for university-operated research or industrial parks.

Illinois universities are involved in a number of prime research areas which could serve as a source for incubator tenants, including: agriculture, microelectronics, telecommunications, robotics, biomedical technology and coal technology. Vice presidents of research, faculty in the engineering and science departments and others should be contacted and made aware of the space and facilities of the incubator.

2) Large Business Spinoffs

A large corporation often has both business ideas and employees with entrepreneurial tendencies which could be combined to form new, small businesses. An incubator could serve as the place to house a large corporation's entrepreneurs. It can be the place to develop the business ideas and research projects that do not fit the scale, planning, objectives or policies of the corporation. In addition, the incubator could house externalized product development or research functions that, if marketable, could be brought back into the large corporation for production, financing and distribution.

If there are large businesses in the area incubator that should be one place to look for potential incubator tenants. A periodic review of new patents being assigned to corporations as well as individuals who work for larger [illegible]ns could help in pinpointing entrepreneurs who might be interest[illegible]in trying their wings in an incubator.

General Electric is an example of the spin-off process at work. General Electric says it will cut any unit, regardless of size or profitability, if it doesn't support the company's first-string businesses on lighting, major appliances, transportation systems, and turbines. GE sold the technical publications unit of its R & D group in 1984. The unit's manager and three professionals of the ten member staff bought the unit from GE. The new company, Genium Publishing Corp., is in Schenectady, N.Y.

Other spin-offs may also occur. When firms such as Dickey John, a central Illinois manufacturer of agricultural monitoring equipment had to reduce its workforce due to a downturn in the agricultural economy, several of its engineers utilized their knowledge and expertise to start their own firms. Three engineers who left Dickey John established Illinois Technology, a Springfield, Illinois firm that began as a manufacturer of transistors. The firm currently has 13 employees, and was recently awarded a loan under the state's Business Innovation Fund to develop a new electronic product.

Another fertile area that often gives rise to new businesses is subcontracting by large businesses. Many large businesses subcontract with smaller firms to produce parts and components of the products they manufacture. In many cases the subcontractors are located in other areas of the country. If it can be ascertained what types of subcontractors are being used by larger firms in the area, it may be possible to start a new small firm locally to obtain some of those contracts, thus benefitting both the large business and the local economy.

3) Filling Local Economic Gaps

Incubator managers should also make an effort to foster new business starts that would help fill gaps in the economy, whether on a local, regional or statewide basis. At the local level, it should be possible through interviews with business leaders and citizens, or a review of the "yellow pages", to determine certain goods or services that are not available for which there are a demand. With respect to a small business incubator, the local prospects probably would be in the service fields. The community may have a shortage of certain professional services such as accountants or architects; or there may be an unusually high demand for caterers or janitorial/cleaning services.

At the broader level, the Illinois Department of Commerce and Community Affairs (DCCA) periodically publishes a State and Regional Economic Data Book that is helpful to those involved in business or industrial planning and/or investment in various areas of the state. One particularly helpful table for those contemplating new manufacturing businesses is one titled: "Statewide Summary -- Manufacturing Value Added Per Capita, 1972 and

1977: Illinois as a Variation from the U.S." From this table it is possible to tell on the basis of a three digit SIC Code breakdown those industries where the state is not as well represented as the nation is as a whole.

As an example, some of the areas where Illinois is significantly under the national norm are: knitting mills, apparel, sawmills and planing mills, plastic materials and synthetics, agricultural chemicals, miscellaneous electrical equipment and supplies, motor vehicles and equipment, photographic equipment and supplies and costume jewelry and notions.

B. NETWORKING WITH KEY GROUPS AND INDIVIDUALS

The networking marketing tactic is one that can have significant payoffs for incubator managers who make it a practice to continually enlarge their circle of contacts. Incubators can market to potential tenants through "agents" such as professionals that have frequent contact with potential entrepreneurs (e.g., bankers, lawyers, accountants, etc.), as well as via business conventions and organizations such as inventor groups that have knowledge of potential entrepreneurs.

1) Tapping the Informal Network of Professional Agents

There are a number of professionals and businesses who are regularly in touch with entrepreneurs and new businesses by virtue of their day-to-day roles. They can be easily contacted by the incubator manager and cultivated as a source of potential tenants.

As an example, the first contacts that the entrepreneur or expanding small business usually makes are with an attorney, a banker and an accountant. In addition, such professionals are often a part of other service and financial networks required by small businesses. Financial institutions and professional firms are good contacts for the incubator manager to cultivate for information leading to potential tenants. These firms also may be interested in incubator tenants as potential clients or investment opportunities.

Other sources of potential tenants are pension funds, and venture capitalists. Since they have an interest in making loans to or investing in new businesses, they are often contacted by entrepreneurs and expanding businesses for financing. Such institutions may be willing to contact their clients on behalf of the incubator to determine their interest in locating there. Venture capital firms might refer businesses that are too small or too young to meet normal venture investment requirements.

2) Prospecting Through Conferences, Conventions, Inventor Organizations and Small Business Assistance Agencies

In addition to the cultivation of networks through professional and business "agents", the incubator manager should make it a practice to attend meetings and conventions where entrepreneurs and small business representatives will be in attendance, as well as to keep in close touch with the groups and agencies that provide assistance to inventors and small businesses.

Hospitality rooms and booths at the following kinds of meetings and conventions can be useful in providing initial contacts with potential tenants:

- Small business workshops sponsored by local chambers of commerce
- Illinois Annual Conference on Small Business
- Workshops sponsored by Small Business Development Centers
- Workshops sponsored by the Entrepreneurship Institute
- Minority business workshops
- Annual Conference of National Federation of Independent Businesses
- Annual Meeting of Illinois Inventor's Council and inventor fairs
- Annual Conference of National Business Incubation Association
- National Computer Conference
- International Machine Tool Show
- Information Technology Conference and Exposition

Another excellent source of leads for potential incubator tenants is organizations (private and not-for-profit) that assist inventors to protect and commercialize their ideas and new products. While many inventors do not plan to manufacture and market their inventions, there are some who would, with proper encouragement and assistance, establish new businesses based on their ideas. Such persons would make ideal, potential incubator tenants. Other potential entrepreneurs might also be found to establish a business around a new invention or newly patented product. The Illinois Inventor's Council is a good source of information on inventors and new product possibilities. The Council is located at 53 West Jackson Boulevard, Chicago, Illinois, (312-939-3329).

In addition to the prospecting that can be done through conferences and inventor organizations, leads can often be obtained from other groups and agencies that assist small businesses such as the Small Business Administration offices, local chambers of commerce, Service Corps of Retired Executives (SCORE) Chapters, and the Small Business Assistance Bureau in the Illinois Department of Commerce and Community Affairs (IDCCA). The department administers a number of small business management and financial assistance programs including: Small Business Development Centers, One Stop Permit Center, Procurement Assistance Program, Business Innovation Fund, Fixed Rate Financing Fund and Small Business Development Program. Staff involved with these programs and the department's marketing bureau staff may be able to refer potential tenants to an incubator facility in cases where this would be appropriate.

The particular resources of DCCA's management assistance programs are discussed in Section VI "Business Management Services", and the financial assistance programs are outlined in Section VII, "Financial Aids for Incubator Tenants."

C. PROMOTIONAL ACTIVITIES

The other key aspect of a marketing campaign is promotion, which includes paid advertising, publicity and other promotional endeavors such as open houses. In a recent study conducted by the National Business Incubation Association, findings indicated that most incubator tenants discover the facility through word of mouth, advertising and media. Based on these findings, there is no doubt that a well, thought-out promotional campaign is one of the keys to filling an incubator with tenants. The following material reflects the various promotional tactics mentioned above.

1) Advertising

The most often used promotional tool is paid advertising in daily newspapers, as well as regional and national business publications such as The Wall Street Journal, Barron's, etc. A portion of an incubator's marketing budget should be earmarked for a regular program of advertising in publications. Because of the expense, incubators usually advertise their resources as part of a community's overall, economic development advertising effort. A representative sampling of regional and national business publications, along with phone numbers and rate information, is as follows:

Publication & Address	Rates
Barron's (Weekly) 420 Lexington Avenue New York, New York 10170 212-808-7200	Classified - $11.89/line
Central Illinois Quarterly (Executive Classified) 123 Twin Towers Plaza Peoria, Illinois 61602 309-637-5388	$59/column inch (Rates decline per col. inch for larger ads.)
Crain's Chicago Business 740 North Rush Street Chicago, Illinois 60611 312-649-5474	Display ads - $80/column inch (discounts frequently available). Straight classified ads are $8.25 per printed line, min. 4 lines. (35 letters and spaces per line.
Inc. "Classified Advertising" 38 Commercial Wharf Boston, MA 02110 617-227-4700	Reg. Ad $7.50/in (1 time) Displ. 1 $5.25/in (1 time) (Frequency discounts)
Venture Box 1510 Clearwater, FL 33517 813-443-7666	For ad rates call toll free 800-237-9851
The Wall Street Journal (Midwest Edition) 1 South Wacker Drive Chicago, Illinois 312-750-4045	$182.70/column inch (12 lines of copy; 28 characters per line) (Frequency discounts)

2) Publicity

Media: In contrast to paid advertising, it is possible to obtain media coverage at little or no cost through the use of press releases, feature stories in local newspapers and regional media and television and radio interviews. The media are always on the lookout for newsworthy or interesting features and are usually most cooperative with respect to publicity endeavors for facilities such as incubators.

One of the most direct ways to obtain free publicity is through the use of a press release. Press releases can be issued when the small business incubator opens, as well as when a new firm moves in or on to larger quarters. These are significant events and generally worthy of coverage in the press -- particularly if they are linked to the creation of new products, services and jobs. Press releases should be written in clear language and generally cover the factors that are contained in any good news article: "What", "Where", "Why", "When" and "How". For the opening of an incubator, it would be appropriate to hold a press conference and invite representatives from all the news media (print, radio, and television) that serve the area. This will give them a chance to ask questions and obtain more detail and backup information for their news stories. In other cases, the distribution of a press release to the media will be appropriate. The release should identify the issuer and the date of the release, be neatly typed and double spaced.

Feature Stories and Editorial Mention: Often a news story on the opening of a small business incubator may be followed by an editorial that shows the media's support of the facility and urges community support and cooperation. Also, it may be possible to get the local press and regional or even national business periodicals to do feature articles on the incubator and its various tenants. Reporters and editors are always looking for a "news peg" on which to hang their stories. This means that one is always well advised to find an angle that can serve as the "lead" of a news story. Rather than urging reporters to do a general piece on the development of the incubator, it might be better to focus the feature on a new firm that has just rented space in the incubator after having developed a new product in a garage. The reporter may well use the specific event as a way to lead into a discussion of the overall aspects of the incubator. You'll seldom have much luck with reporters by talking only in general terms about your subject. Reporters are in the NEWS business, and they're looking for something NEW.

Talk Shows: Often radio and television stations in the area have regular public service shows or "meet the press" type programs that are natural opportunities to make the community aware of the incubator and its potential. The format of such shows is generally relaxed and is an easy way to reach a large audience, many of whom may not read the newspaper very carefully.

A call to the various media is needed to obtain their program schedules and to inform them of your desire to participate in future shows. A follow-up letter is also recommended..

In addition to doing guest shots on media programs, local civic and business organizations always need speakers for their bi-weekly or monthly meetings. Such groups should be regularly contacted by the incubator manager to let them know of his or her interest in making presentations at their meetings. The names and phone numbers of such organizations' officers can usually be obtained from the local chamber of commerce.

Brochures: Another important promotional item is a well designed brochure that can be mailed or given out to persons and organizations that should be informed about the incubator or who request information on the facility. Brochures should cover the details of the incubator and be structured in much the same way as a news story is organized. They should:

- Identify the incubator and describe its basic features;
- Indicate where it is located;
- Outline the procedures for renting space; and
- Provide information on basic rental costs and fees for centralized services.

3) Other Promotions

Other low- or no-cost ways to promote the incubator include open houses and sponsorship of local events.

Open House: A good time to hold an open house is when the incubator first opens. A grand opening can be held at which key people, as well as the public in general, are invited to visit and tour the new facility. Simple refreshments can be served and tours of the facility provided. Such an event will not only help make the incubator known immediately, but it will generate news stories that will provide leverage for the event.

Another key time for an open house would be when the facility is completely filled. On this occasion, it should be possible to have the tenant firms participate and "show off" their products or services. This would not only be helpful in further promoting the incubator, but also in giving the firms needed exposure.

Sponsorship of Events: Another way to help keep the name of the incubator before the public is to sponsor or co-sponsor community events.

As an example, the incubator could co-sponsor a small business workshop or new product/services fair with the local chamber of commerce or other economic development organizations in the area. Not only should the incubator be prominently mentioned in the materials and publicity promoting the event, representatives of the incubator can also be participants in the event as panelists or of a booth.

In summary, several marketing approaches must be used at one time or another in order to obtain suitable tenant candidates. These include targeting markets in areas from which potential tenants might be drawn, developing networks that will foster tenant interest and referrals and designing and implementing a well-thought-out series of promotional activities.

III. SCREENING AND SELECTION OF TENANTS

The success of a small business incubator depends, in part, on the type of tenants that rent space in the facility. While most incubators have no "hard and fast" rules concerning tenant selection, there are a few key guidelines that can be used to help ensure that a new firm will be an asset to the incubator rather than a liability.

Basically, a firm planning to locate in a small business incubator should have its business ideas as well-thought out and planned as possible, and have enough working capital to meet its needs in the early phases of its development. The firm should also have experienced management personnel to operate its business properly.

The screening of a potential tenant is intended to determine the status of its business planning and financing; the firm's management personnels' capabilities; if the incubator environment is appropriate for the business; and if the new or expanding business could benefit from specific services that could be provided by or through the incubator.

Prospective tenants should be required to complete a tenant application form (See Part C, page 24) which is designed to elicit some of the information needed for screening purposes. This material should be reviewed by the incubator manager and a screening committee comprised of the incubator's advisory or operating board. Additional information can be obtained through an interview with the principal or principals of the business.

In the event that the screening committee finds that a prospective tenant does not have all of the information requested, or has obvious problems in a key area (e.g., finance) -- the applicant should be advised of the steps that need to be taken to overcome any particular problem or weakness. The incubator manager and/or screening committee can also help prospective tenants obtain access to technical and financial assistance available in the area.

A) SCREENING OF TENANTS

Every prospective tenant should undergo an initial screening before a decision is made that the incubator's support is the best avenue for the business to pursue. The following points should be covered in the screening process:

1) Would the business be an asset to the incubator and is the incubator environment appropriate for the business?

   - What does the company do or want to do?
   - How many owners will the business have? (Proprietor, partnership or corporate forms of ownership each have their own advantages and disadvantages.)
   - How many employees are there now, and how many new employees will be added (In one year and in two years?)
   - What are the skill levels and educational requirements of the employees who the prospective tenant plans to hire?

- Does the owner have the skill, knowledge and ability to make the business go? (Formal business training or experience with the product or service is invaluable.)

- Why does the applicant wish to locate in the incubator?

2) Is capital required to start operations in the incubator?

- How much will it cost to set up business in the incubator?

- How will the business be financed?

- Has the business talked to its bank about financing? Has the bank agreed to participate?

- How much cash can the company bring to the business venture? (Start-ups must generally provide 20 to 30 percent equity.)

3) Could the business benefit from specific management assistance services?

- Does the business need help in getting properly organized (e.g., incorporated?)

- Does it need help with the development of a sound system of accounting for expenses and income, inventory, payroll, taxes due, etc.?

- Has a business plan been prepared for the company?

- Is the business owner familiar with business laws for his/her type of work and the licenses and permits he/she is required to hold?

- Do employees need training?

- Is the business prepared to manage its risks (e.g., employee insurance, professional malpractice, theft, liability, etc.?)

B. SELECTION OF TENANTS

By covering the above points with potential tenants, the incubator manager and/or screening committee will be prepared to evaluate all applicants for tenancy. Incubators participating in State of Illinois financed incubators must evaluate prospective tenants on the basis of, but not limited to, the following factors:

1) The likelihood that the business will be profitable;

The business planned should be one that meets a clear-cut market need, either within the community or regionally or nationally. Unless the members of the screening committee feel, based on their first hand experience, that the proposed business product or service would fill such a need, they should insist that the applicant provide a professional market analysis with respect to his or her idea. To place a tenant without a reasonable likelihood of success in the incubator would be doing both the tenant and the incubator a disservice.

2) Whether the product to be manufactured or the service to be rendered would be new or improved;

Unless the tenant's business concept relates to a new or improved product or service (one meeting a specific need for which there is a demand), the tenant's chance for economic success could be greatly diminished due to the fact that potential competition will have already staked out a large share of the market for such products or services. The screening committee should be very persistent in determining what makes the tenant's proposed product or service better than an existing product or service that fills the same general or specific need.

3) Whether the potential market for the product or service is regional, statewide or national;

There is always the possibility that a tenant's business will succeed irrespective of its intended or potential market. However, in order for the firm to grow, expand, and eventually leave the incubator for larger quarters, it would be desirable for the potential market to be as large as possible. One of the considerations to be given, even though the immediate marketing will be done on a local or regional basis, is whether the business is one that might later be franchised or extended into other market areas in other ways.

4) The likelihood that the business will generate a significant number of new jobs and not eliminate existing jobs in the community or area;

Consideration of these factors is important, not only to help ensure that there is a net gain in employment due to the establishment of a new or the expansion of an existing firm in the incubator -- but to help maintain the good will and support of the community for the incubator operation. If, due to the types of firms locating in the incubator, a number of employees of other businesses in the area lose their jobs, a great deal of ill-will could be created which could eventually undermine the community's support for the small business incubator concept.

5) That the business is a new plant start-up or a new venture opportunity and is not a relocation of an existing business from within the area or region -- unless that relocation results in substantial growth of the business;

While there could be more assurance of tenant success if the tenant firm is a relocation of an existing business from within the area served by the incubator, this will not help prove the worth of the incubator in assisting start-ups or new ventures in becoming successful businesses. The acceptance of relocations as tenants should be avoided unless it would result in substantial new growth for the business involved.

6) The likelihood that the business will be substantially aided by its location in the small business incubator.

There may be instances when a potential tenant will apply for space in the incubator without accruing any particular benefits to the firm. If it is already profitable, has its own clerical and support staff, and has adequate space for meetings, loading, etc. -- there is really nothing much

to be gained by the firm locating in the incubator. It is best to always recruit tenants for which the incubator will make a meaningful impact on their success potential. This makes good sense for both the tenant and the incubator.

In summary, one of the most critical factors in the potential success of a small business incubator is securing the right tenants. The tenant-screening process should be taken very seriously by the incubator sponsor and management, and adequate time and resources devoted to this critical stage in the facility's operation.

C. TENANT APPLICATION FORM
(Page 1)

1. Name of Company: _____

2. Current Address: _____

_____

3. Phone Number: _____

4. Form of Ownership: ____ Corporation ____ Partnership ____ Sole Proprietor

5. President or Key Official(s): _____
(Please attach resume(s)) _____

6. Date company was established: _____

7. Description of existing or proposed business: _____

_____

_____

_____

8. Is proposed product or service a new one or an improvement on an existing one? _____

Please elaborate: _____

_____

_____

_____

_____

9. On what basis will the product or service be marketed?

Local _____ Statewide _____
Regional _____ National _____

10. Number of existing employees: _____

11. Number of additional or new employees proposed: Yr. 1: ____ Yr. 2: ____

12. What are the required skills and educational levels of the employees to be hired?

_____

_____

TENANT APPLICATION FORM
(Page 2)

13. Is there a possibility that the business will eliminate existing jobs within the community or area? Yes ____ No ____

14. Annual Sales (last fiscal year): $_____

15. Company Profit (Loss) last fiscal year): $_____

16. Net Worth: $_____

17. Expected cost of setting up business in the incubator: $_____

18. If financing is needed, how will it be obtained? _____

_____

_____

_____

_____

_____

19. What types of business management assistance would be helpful to your company in setting up business in the incubator?

_____

_____

20. Has a business plan been prepared for your company? _____
(If yes, please attach a copy.)

21. Does your company have all the licenses and permits needed to conduct its business?_____

22. Will employees need any training? _____

If yes, in what areas? _____

_____

23. What types of insurance does your company carry?_____

_____

_____

24. Number of square feet needed in the incubator:_____

25. Estimated date of relocation to the incubator:_____

IV. THE INCUBATOR TENANT LEASE

A. INTRODUCTION

A major benefit of a small business incubator facility is its ability to offer small businesses flexible leasing arrangements. The incubator is flexible because:

- Space needs and configuration can easily be changed,
- Rents are open to negotiation and can be deferred, and
- Term of lease can extend from one month to longer lengths.

Even with this flexibility, the operator must carefully judge tenant revenue in order to meet operating and debt costs of the facility. In addition, the tenant lease agreement should take into consideration possible increases in operating costs and allow for escalation of rental fees.

The management of a small business incubator should develop a standard lease form. While the basic sections of the lease will apply to all tenants, certain sections might vary with respect to the length of the lease and the amount of the rent. The term of the lease may be on a month-to-month basis or for a year or more with option to renew, depending on the incubator's exit policies. A lease should cover, at a minimum, the following:

- Amount of space to be leased
- Duration of the lease
- Amount of rent to be paid by tenant
- Use of the premises
- Maintenance, alterations, and repairs
- Indemnification of the lessor
- Insurance requirements
- Default provisions

B. TENANT EXIT PROCEDURES

One of the decisions that should be made by the incubator management is the length of time that businesses will be allowed to stay in the facility. While some incubators have no definite policies in this regard, it should be remembered that the purpose of a small business incubator is to help new, small firms get started. If tenants move in and stay for many years, there is little possibility that there will be sufficient room to incubate new businesses.

In many cases, a specific policy on tenant tenure may be academic, since successful firms will probably outgrow their space and seek larger quarters elsewhere, or a firm may fail and move out. If tenant selection procedures are well established and are administered properly, many of the firms that locate in the incubator will have a good chance of growing and will eventually need to relocate anyway.

Another factor that will influence the tenant exit policy is the size of the incubator. If the facility is large, it might be possible to allow a growing firm to expand within the incubator, and also allow for new firms.

Generally speaking, it is recommended that occupancy in an incubator facility be limited to a period of 3-4 years. By this time, the future prospects of a firm should be fairly well known and a logical decision can be made about its future location. But, the incubator management may desire to have alternative tenant exit policy to meet particular conditions with respect to incubator size and type, and special needs of firms.

In the event that the incubator was designated and funded under the Illinois Small Business Incubator Act, the tenants must make every effort to relocate to a permanent location not later than 36 months after entering the incubator. A tenant may request suspension of this requirement for periods of not more than 12 months at a time. The sponsor may suspend this requirement based on a determination that a business still requires the services of the incubator.

C. TENANT CERTIFICATION FORM

Small Business Incubators funded by the State of Illinois are required under the legislation to secure a certification from the incubator tenant. The certification shows the business's intent to lease space for a new business and to make every effort to relocate to permanent quarters in a timely manner. A sample certification form follows.

TENANT CERTIFICATION FORM

(For firms located in small business incubators designated by the State under the Illinois Small Business Incubator Act)

The undersigned Applicant certifies that:

1. He or she agrees to do the following if space is leased in the incubator:

(a) Pay rent determined by the incubator sponsor. The sponsor may agree to have the rent for a predetermined number of months payable at a later date by which time the business is expected to have received committed starting capital.

(b) Pay utilities and other associated costs determined by the sponsor.

(c) Make every effort to relocate to a permanent location no later than 36 months after entering a small business incubator. A business may request suspension of this requirement for periods of not more than 12 months at a time. The sponsor may suspend the requirement for 12 months at a time upon a determination that a business still requires the services of the incubator.

2. The business to be located in the incubator is a start-up or a new venture and is not a relocation of an existing business from within the area or region.

Signed: _____

Date: _____

V. FACILITY SERVICES

One of the most attractive aspects of a small business incubator to small firms is the availability of centralized support services, such as phone answering, typing/word processing, photocopying, etc. Most small firms are able to save 50 percent or more on overhead costs and find centralized support services, in combination with affordable incubator rents, to be a practical alternative to the often prohibitive costs of renting, equipping and staffing their office functions in conventional rental space.

A. NO CHARGE SERVICES

Generally, certain facility support services are included as a part of tenants' base rent, while others are provided on a cost or fee basis. Services generally provided at no extra charge are as follows:

Receptionist--A receptionist in an attractive reception area is normally provided during all normal business hours. Extended hours for receptionist services are sometimes provided if experience shows it to be necessary.

Telephone Answering Service--Tenants are often given the option of having all incoming calls answered by facility clerical staff persons who can personalize greetings as chosen by each individual tenant. The telephone answering service can merely screen a tenant's calls, take messages in the tenant's absence or transfer incoming calls to any location. Generally, a base number of calls per month are included with the rent. Incoming calls above the base can be paid on a per call basis.

Conference Room--One conference room (at least 10' x 10') is normally provided for tenants' use at no extra charge. In some incubators, ancillary conference services may also be available at no additional cost (e.g., video capability, slide projector and screen, easel, chalkboard, etc.)

Janitorial Service--Common areas and tenant space are generally cleaned and waste baskets emptied by a janitorial service contracted for by the incubator facility. Cost of such a service for general office cleaning is approximately $8 per hour. This includes the cost of the janitorial service's labor, supplies, chemicals and equipment. In some cases, tenants may not want others to enter their space.

Security Services--Security services vary depending on the type and location of the incubator facility. Security devices or systems used by small business incubators may range from providing every tenant with a key to the main entry that is locked at 6 P.M. every day and, perhaps, on weekends -- to a 24 hour security guard on the premises.

The actual system employed will depend on the size and character of the incubator as well as budgetary constraints. As a minimum, it should be possible to secure each tenant's space. Usually such space will open into a corridor or central circulation area which can be entered from an exterior doorway. In some incubators, it may be desirable to have a controlled reception area through which tenants may pass with a magnetic

card, or be allowed access by a receptionist. Visitors and guests could wait in the area and enter the incubator's interior circulation area only if accompanied by a tenant. Another method that can help to control the premises, particularly after working hours and on weekends, is to require all after-hours visitors (including tenants) to sign in and out at a reception desk. Usually when this procedure is followed, a security guard is present.

In some incubators, a maintenance person will act unofficially as a security person in the evening hours. Other incubators employ security guards on a 24 hour basis.

In addition to the methods suggested above, electronic surveillance systems should be considered as a back-up measure to personal security procedures. Also, smoke detectors and fire alarms should always be installed.

Loading Dock--Some incubators provide a common loading dock or docks for tenants' use. If the incubator provides space for firms that manufacture products, loading facilities should be included as a part of the basic rent.

B. EXTRA CHARGE SERVICES

A number of "front office" services provided by an incubator are easily separable from basic rent charges and are used by tenants on a highly variable basis. Facility services for which there are normally extra charges include:

Secretarial and Word Processing--Typing and word processing services are usually provided to tenants by a qualified staff on a per use basis. The charge may be by the hour or by the page or a combination of the two. Tenants can use such services for all their needs or for overload work.

Photocopying--A certain number of photocopies per month may be provided as a part of basic rent, but photocopying is usually charged for on a per-use basis.

Mail Room--Mail room service to process the tenants' mail may be provided. Outgoing mail is handled and charged for on a per use basis.

800 Number Tele-communications--Consideration might be given to the establishment of an 800, toll free number that the tenants' customers or clients could use for ordering products or obtaining services. Users of the service can be charged on a per use basis.

Telex and Facsimile Transmission--Telex and facsimile transmission equipment could be installed for tenants' use and charged to them on a per use basis. A telex can be typed into directly and a copy reproduced at the location to which it is being transmitted. Facsimile transmission is handled by a "Telefax" machine.

Microcomputer Services--A microcomputer system could be obtained for the tenants' use depending upon their interest and needs. The use of the system could be scheduled and billed to the tenants on an hourly rate basis.

Furniture and Equipment Leasing--Tenants, who do not wish to tie up capital in office furniture and equipment immediately, may request arrangements to be made to have these items leased. If a number of tenants are interested in leasing, reduced rates could probably be negotiated. One incubator leases the following package of furniture and equipment for $125 per year.

- Executive Desk
- Executive Chair
- Credenza
- Bookcase
- File Cabinet

Collating--Collating services could be provided in connection with photocopying. The cost of such services to tenants usually runs in the neighborhood of $1.00 per 100 sheets.

C. BILLING FOR SERVICES

One of the problems faced by incubator managers is the development of a workable system to account for the amount and cost of services provided to tenants. In some cases, this can be - and has been - done on a manual basis. When there are only a few tenants, it is fairly easy to account and bill for services provided to tenants. Generally, accounting and billing systems for the services listed below are handled as follows:

Typing/Word Processing--Typing or word processing request forms can be provided to tenants to handle clerical work orders. A notation can be made by the typist on the form and filed in the tenant's file. In the case of word processing equipment, a document summary can be automatically requested which includes a notation of work time which can also be placed in the tenant's file. Once each month, total clerical time per tenant can be totalled and billed at the hourly rate charged for such services.

Photocopying--Each tenant can be provided with a counter that will activate the photocopying machine. A log can be kept near the photocopier where the tenant can log in the number of copies made. The usage can be noted periodically and tenants billed monthly on a per copy cost basis.

Phone Answering--This service can either be included in the rent or billed monthly on a pre-negotiated basis with each tenant.

Postage--A notation is made from the postage meter of the amount of postage used for a tenant, which is placed in the tenant's file. The tenant is billed on a monthly basis.

Computer--If computer services are required, they are usually billed on a production basis. An estimate of the costs involved can be given to the tenant before the job is undertaken. The tenant can then be billed for the service monthly.

Bookkeeping--An estimate of the cost of bookkeeping services can be provided and the tenant billed for them monthly.

With respect to billing, this can either be done manually or there are a number of microcomputer programs that can be purchased at a small cost that will handle not only billing, but also accounts receivable, accounts payable and payroll.

As the incubator fills up and the workload increases, it may be possible for the incubator to utilize electronic management control systems that can automatically keep track of time spent or units used with respect to word processing, photocopying machines, small business computers and other electronic office products.

One electronic access control/management information system that is available costs about $500. It not only controls access for use of the office equipment by the insertion of an authorized card, but it also tracks the usage of the equipment. It can count events or time units, and can count up or down. To handle these variations, the system is programmed by the use of supervisory magnetic-stripe control cards with the date encoded on the magnetic stripe.

In many applications for word processing, a card is established for each business firm. Their card is inserted when the work is being performed. At the end of the time period (in a week or a month), a supervisory card is inserted and the total time used for each incubator tenant is displayed and recorded. This card provides a total accountability for the machine and can be used for billing or cost allocation.

The available systems on the market can generally be interfaced with almost any product. The units come in small, shippable packages which can easily be returned for servicing, if necessary. They use the latest technology in microprocessor design and are very reliable.

VI. BUSINESS MANAGEMENT SERVICES

A. HELPING THE ENTREPRENEUR

The history of small business failures reveals that many firms fail from the cumulative effects of substandard performance and unanticipated set-backs resulting from poor management. For the business owner to move from a conceptual stage towards actual operation of a new business, a number of questions and challenges must be addressed. Most entrepreneurs need help in dealing with such issues as: concept or product evaluation, idea/invention protection, prototype development, business planning, market research, licensing and regulations, business financing, accounting and recruitment of key employees.

Generally, the five key areas within which the incubator staff can help an entrepreneur are as follows:

- Evaluating a new technology, product or service.
- Developing a business plan.
- Assembling the management team.
- Obtaining start-up financing.
- Finding a good business location.

It may take a year to provide all the services in these areas to a potential business tenant. It usually takes about one to two months to evaluate the new business, five months to develop a business plan and assemble a management team and five months to arrange initial financing.

1) The Business Evaluation

The incubator manager may begin assisting a business-owner client by arranging for an evaluation of a proposed product or service. The purpose of such an evaluation is to determine if the business idea is technically feasible, has market potential, would be safe to use and/or be able to meet legal guidelines, etc. The evaluation would also include an assessment of the assistance the entrepreneur may need to get the business going. The client should sign a waiver at this point to release the incubator from any responsibility for success or failure of the business.

If problems are identified at this point, a plan can be developed to correct the problems or the client can be advised that the idea is not feasible (perhaps because of severe technical deficiencies or unusually large funding requirements). Troubleshooting at this stage of development can save all parties considerable time, effort and money later on.

If the evaluation of the proposed business is positive and the client wants additional assistance, a plan for business development based on the client's needs can be prepared. The specific tasks in the plan can be carried out by the incubator manager, advisory board, volunteers or small business development center personnel. All information received from the client during evaluation -- as well as the results of staff and advisory board reviews -- should be strictly confidential.

2) The Development of a Business Plan

After the business evaluation, the first step in business development is the formulation of a business plan. This plan -- a detailed blueprint for company management -- is central to the entire process of starting and operating a successful business. A carefully prepared plan will significantly reduce the risks of business start-up and will maximize results.

In effect, a business plan is a simulation of how a business will operate. Generally it should include the following kinds of information:

BUSINESS PLAN OUTLINE

THE COMPANY AND ITS HISTORY

- The Company
- Discussion of the Industry
- Strategy

PRODUCTS OR SERVICES

- Description of Product Line
- Proprietary Position, Patents and Copyrights
- Technologies and Skills

MARKET RESEARCH AND EVALUATION

- Customers
- Market Size, Trends and Strengths
- Competition -- Strengths and Weaknesses
- Estimated Market Share and Sales
- Ongoing Market Evaluation
- Economics -- Margins and Costs

MARKETING PLAN

- Overall Marketing Strategy
- Pricing
- Sales Tactics and Distribution
- Service and Warranty Policies
- Advertising and Promotion

DESIGN AND DEVELOPMENT PLANS

- Product Improvement and New Products
- Development Status and Tasks
- Legal and Technical Considerations
- Costs

MANUFACTURING PROCESSES

- Materials
- Source of Supply
- Production Methods
- Operating Schedule of Work

EXPENSES OF START-UP

Down payment and Lease on Premises
Purchase or Lease of Machinery and Equipment
Inventory
Utilities
Salaries and Wages
Professional Services
Licenses and Insurance
Advertising and Promotion

LICENSING AND REGULATIONS

Occupational and Business License
Building Use Permits
Corporation Filing
Assumed Names Act Filing
Environmental Protection Regulations
Employee and Labor Law

TAXATION

Federal Income and Excise Taxes
State Income, Employment, Sales and Use Taxes
Federal and State Tax Credits

RECORDKEEPING

Inventory and Property Control
Payroll Records
Accounting Systems
Tax Records
Customer and Product Lists
Credit and Collection

BUSINESS INSURANCE

Workers' Compensation, Fidelity Bonds, Employee Health and Life
Fire, Liability, Flood and other Casualty
Product Liability or Personal Malpractice

LABOR FORCE

Number of Employees/Staffing Plan
Training Needs
Employment Policies
Employee Pay and Benefits

SITE PLAN

Geographical Location
Plant Facilities and Improvements
Machinery and Equipment
Real Estate and/or Lease Hold Agreements
Utilities and Transportation

MANAGEMENT PLAN

Form of Business Organization
Officers - Roles and Responsibilities
Key Management Personnel Resumes
Management Compensation and Ownership
Board of Directors' Compensation
Outside Professional Services

PROPOSED COMPANY OFFERING

Summary of Financial Needs and Application of Funds
Desired Debt and Equity Financing
Securities Offerings
Capitalization Plans
Use of Funds
Potential Return to Investors

FINANCIAL PLAN

Historic Financial Statements
  Profit and Loss
  Balance Sheet
  Cash Flow Analysis
  Capital Expenditure Estimates

Comparative Analysis
  Key Business Ratios
  Comparison to Industry Averages

Breakeven Analysis
  Cost of Living Budget
  Predicted Sales Volume
  Monthly Income and Expense Statement
  Cash Flow Projections
  Proforma Balance Sheet
  Profit and Loss Forecast

3) Selection of the Management Team

Good management is the key to business success. An attractive idea can not be developed, nor can a promising market be tapped without good business management. And in most cases, the entrepreneurial team that comes to the incubator lacks the general managerial or marketing ability it needs. In fact, the "team" may consist only of the engineer, technician, inventor or salesperson who developed the business idea. Fortunately, any community -- no matter how small -- usually contains some people who welcome the opportunity to become part of a start-up company: to direct the development of a product; to devise marketing methods and a sales organization; and even to assume responsibility for general management.

Bringing together the entrepreneur and this community talent is another function of the incubator management. They can interview interested persons for key positions in the new company, evaluate references and accomplishments, and recommend action for the client. In this way, the incubator can establish a pool of managerial talent that can be tapped whenever needed.

During the initial business evaluation, the incubator staff should develop a list of the qualities and skills needed to take the venture through start-up. Managerial candidates who match the need can later be recommended to the entrepreneurial team. It is then the responsibility of the entrepreneurial team and the prospective managers to evaluate the "chemistry" between the parties and to decide upon remuneration agreements, questions of equity participation, and job descriptions; the incubator staff can act as a negotiator in this process.

4) Start-up Financing

Once the business plan and the management team are in place, the incubator staff and advisory board can help the prospective business secure financing. The staff can advise the client in financial negotiations, but the client should retain his or her own legal and accounting professionals.

When a business begins to stabilize and mature, the incubator staff can help by attracting venture capital companies as primary funding sources. Other options to investigate include R&D limited partnerships, private placements, public offerings, and investments by corporations, foundations, pension funds, government agencies and private individuals. Sources of seed capital and other sources of financing are discussed in Section VII of the handbook.

5) Business Location

Location is an important ingredient for the success of most new enterprises. In many cases, the incubator will be an ideal location. The incubator provides space, administrative services and a fully-operating business environment -- all at attractive rates.

With this back-up, the new entrepreneur can devote his or her full capital and energy to the development and growth of the business.

The incubator staff should be aware of available office and industrial space throughout the community so that they can recommend a start-up location. Later on, the staff should be prepared to help clients who want to move out of the incubator and into more permanent headquarters.

B. INFORMATIONAL EXCHANGE

One of the most beneficial aspects of the small business incubator is the mutual support and exchange of ideas that tenant firms offer one another. Firms benefit almost as much from such trade-offs as they do from other aspects of the incubator. This is why it is so important to obtain not only a good tenant mix, but also a range of experience levels among tenants as well. Often, an entrepreneur will feel more comfortable discussing his or her needs with someone who has had a similar experience than talking to a business consultant with no direct background in a similar type of small business.

In many cases, the exchange of information and mutual assistance among tenants will occur without prodding or suggestion from the incubator manager. However, if they fail to occur or if certain tenants are not benefitting from such informal learning processes, the incubator manager should find ways to promote and institutionalize such beneficial exchanges. This might be accomplished in one or more of the following ways:

- Discussions with each tenant should alert the manager that someone has dealt with a particular problem that another tenant is experiencing. The manager can then suggest that the one having the problem contact the tenant firm that has found a solution to that specific issue.

- Bi-weekly or monthly round table discussions could be scheduled by the manager in which tenants could either discuss problems and issues in general or a specific topic could be chosen each time such as financing, marketing, etc.

- Informal social get-togethers could be scheduled from time to time where tenants could get to know each other better and trade ideas. These gatherings could be held in the incubator's conference area with tenants taking turns hosting the events. As an alternative, the socials could be held in a local restaurant or in a park during the warmer months of the year.

- An in-house newsletter could be started which would feature a different firm or firms in order to acquaint the tenants with each other and the issues with which they have dealt.

Over time, other models may be implemented to help foster tenant interaction. But whatever models are used, it is important that these types of exchanges occur.

C. WAIVER OF RESPONSIBILITY

As noted earlier, business clients of the incubator should sign a waiver to release the incubator from any responsibility for the success or failure of their businesses. This is a good legal precaution for the incubator to take and could prevent damaging litigation in the event that an owner whose business has failed chose to blame the incubator or its management assistance efforts as a cause for the failure. The following is a sample form that can be used for this purpose:

SAMPLE WAIVER OF RESPONSIBILITY

I, the undersigned, agree that _____ assumes no
(Name of Incubator)
responsibility for the success or failure of my proposed business venture.

The role of _____ is consultative in nature and any advice
(Name of Incubator)
or information offered may or may not be used as per my discretion. It is

further understood that the _____ offers no financial backing for
(Name of Incubator)
the proposed business venture and that its only involvement in this area is to

offer the entrepreneur a list of potential funding sources. Therefore, I

release the _____ and its agents from any liability associated
(Name of Incubator)
with my proposed business venture.

_____ _____
Signature Date

D. SOURCES OF MANAGEMENT ASSISTANCE

As noted above, one of the most important roles of the small business incubator manager is knowing how best to assist prospective or actual tenants with their business management problems and needs. As a part of the screening and selection process, it will be possible to specifically identify such issues and to begin matching them up with available resources.

Since it is expected that the incubator manager will have significant training or experience in business management techniques, this will probably be the first source of business management advice drawn upon. However, due to the manager's many duties, it is not to be expected that this person will be able to provide all of the in-depth management assistance that may be needed by various tenants. Rather, this individual will serve as a broker of professional and technical services that may be available in the area. The incubator manager can also provide tenants with guide materials that are available from such sources as the U.S. Small Business Administration, the Illinois Department of Commerce and Community Affairs, etc. In addition, there are a number of other sources upon which the incubator manager can draw in providing management assistance to tenants. A number of these sources are discussed in this section of the handbook.

1) Department of Commerce and Community Affairs

Start-Up Kit -- As a starter, the incubator manager could provide the entrepreneur or prospective tenant with a business start-up kit that is available from the Illinois Department of Commerce and Community Affairs (IDCCA). This kit contains the following items:

* Starting a Business in Illinois Handbook
* Financial programs/information
* Teltape Information System flyer
* Small Business Administration's free publications flyer
* Checklist for Going Into Business
* Workers' Compensation information
* Department of Employment Security -- "Reports to Determine Liability"
* Assumed Name Act information and forms
* Secretary of State -- Articles of Incorporation application
* Internal Revenue Service information
* Small Business Tax Workshop registration form
* Illinois Department of Revenue -- Business Registration Kit
* Guidelines for developing a business plan

If available, IDCCA also will include information on the specific type of business being planned. The department also has a number of other resources that can be drawn upon by the incubator manager and tenants during the ongoing business development process. These services are discussed in this section.

The business start-up-kit can be obtained by contacting: Small Business Assistance Bureau, Illinois Department of Commerce and Community Affairs, 620 East Adams, Springfield, Illinois 62701; phone (217) 785-6185 or 800-252-2923.

General Management Assistance -- The staff of the department's Small Business Assistance Bureau works with business owners and operators in specific management areas. In addition, it conducts a variety of workshops and seminars ranging from pre-business programs, to workers' compensation workshops and seminars on small business taxation; maintains a "Business Hotline" (800-252-2923) to provide a quick response to questions from small business owners and operators and provides services to female and minority entrepreneurs, including: management and technical assistance, help with loan applications and assistance in procuring federal contracts.

In addition to these general management assistance programs, IDCCA has other programs that can be drawn upon by the incubator manager and tenants. For information, contact the department's Small Business Assistance Bureau: 800-252-2923 (Hotline), 217-785-6162 (Springfield) or 312-917-6885 (Chicago).

One Stop Permit Center -- The One Stop Permit Center provides new and existing businesses one-stop access to state permits and licenses. In addition, the Center can help an entrepreneur cut through government "red tape". Staff can work with a new business in its dealings with government agencies and help expedite the process of obtaining business operating licenses and permits. The Center can be reached at 800-252-2923.

Energy Assistance -- Technical and financial assistance is offered to Illinois small businesses interested in lowering their energy costs. Technical assistance is available in the form of free energy audits that can result in a savings up to 25 percent. Financial assistance is also available through IDCCA. Subject to available funding, the department cooperates with local lending institutions to provide businesses energy loans at interest rates lower than conventional rates. For more information on energy assistance contact: IDCCA's Small Business Assistance Bureau in Springfield at 217-785-6194.

International Business -- The International Business Division of DCCA provides information and assistance to Illinois firms in their efforts to develop international markets. Services include: helping firms establish personal contacts in the foreign marketplace; assisting firms locate potential agents, importers, distributors, joint venture partners and licenses; helping with business trip planning; assisting firms obtain export development financing; and aiding businesses obtain freight rate information. Further information on services available can be obtained from IDCCA's Division of International Business in Chicago at 312-917-2086.

Industrial Safety and Health Consultation -- The Illinois Department of Commerce and Community Affairs' On-Site Consultation Program provides free, confidential safety and health consultations to any employer in the state, upon request. This voluntary program is aimed at controlling or eliminating occupational hazards in the work place. Consultants work with the employer to bring the work place into compliance with federal standards. For additional information, contact the Office of Industrial Services in Chicago at 800-972-4216 (Hotline) or 312-917-3270.

Job Training Programs -- IDCCA's job training programs help meet the specific and unique needs of individual companies. IDCCA can assist Illinois businesses by:

- Identifying potential employees;
- Developing streamlined "cost effective" job training programs;
- Working with public secondary schools, area vocational centers and community colleges to deliver custom job training programs; and
- Offsetting employees' salaries while in training.

Such assistance is available through the Illinois Industrial Training Program, Job Training Partnership Act and the Dislocated Worker Program. More information on these programs can be obtained from the IDCCA Job Training Division in Springfield at 217-785-6081.

2) Local Professional Sources

Another source of professional management assistance is the incubator governing board or technical advisory group. These individuals will likely have backgrounds in such areas as: accounting, business management, computer programming, finance, insurance, law and marketing/sales. In some cases, they may be willing to contribute a small percentage of their time to assist clients of the incubator. In some incubators, an accountant or an attorney may be one of the tenants and provide a limited amount of services for business tenants on a pro-bono basis with the expectation of serving their accounting or legal needs on a long-term basis. Arrangements could also be made with other local professional persons who might agree to provide services to the new tenants for a reduced rate during their start-up periods, with the prospect of picking up permanent clients who will eventually be able to pay market-rate fees for services rendered.

3) Service Corps of Retired Executive (SCORE)/Active Corps of Executives (ACE)

Other possible local sources of business management assistance are SCORE/ACE Counselors who are located in most of the larger cities in Illinois. Sponsored by the U.S. Small Business Administration, SCORE/ACE Counselors are a group of retired and active executives who provide free business counseling to potential and existing small business owners.

SCORE/ACE Counselors have had successful business careers as company executives or owners of their own businesses. These counselors have expertise in practically every conceivable business activity, including finance, computer technology, business consulting, international trade and marketing.

There are over 300 members in chapters located in ten major areas in Illinois. There are also sub-chapters or SCORE "Desks" in other locations in Illinois that can provide the same kind of assistance as is offered by full chapter counselors.

A directory of SCORE/ACE Chapter members, including the expertise of each counselor, is available from the U.S. Small Business Administration, 219 South Dearborn Street, Chicago, Illinois 60604; 312-353-7723.

4) Small Business Development Centers

One of the most promising sources of management assistance to potential and existing small businesses are Small Business Development Centers (SBDCs). These centers represent a partnership between the federal Small Business Administration (SBA) and the Illinois Department of Commerce and Community Affairs (IDCCA).

A Small Business Development Center serves as a focal point for linking the resources of federal, state and local governments with those of colleges, universities and the private sector to meet the specialized and complex needs of the small business community. Under the leadership of IDCCA, a consortia of offices have been established in regions throughout the state.

Through collaboration, local areas determine the best method for coordinating and delivering local management assistance services to small business. Consortia prepare a management assistance data base which catalogs the small business service delivery capabilities and capacities of the local organizations, higher educational institutions, local economic development agencies, chambers of commerce, private consultants and other sources.

Satellite Centers provide direct assistance to small businesses through a business analyst/account executive. This individual also has direct access to information specialists, technology transfer agents, lab facilities and other types of specialized assistance through a well-defined network. Primarily, the centers broker or deliver counseling, training and technical assistance to small businesses in their area. The centers also provide specialized services in international marketing, business skills assessment, business law information, capital formation, production improvement/technology utilization and economic and business data analysis.

The manager of the Small Business Development Center Program can be contacted at: Department of Commerce and Community Affairs, 620 East Adams, Springfield, Illinois 62701; 217-785-6152.

5) Technology Commercialization Centers

Through Technology Commercialization Centers established at more than a dozen Illinois universities, community colleges and federal research labs, IDCCA is developing a collaborative effort between university resources and the business sector. In addition to investigating university-developed and university-owned technologies in terms of their commercialization potential, the centers have also developed a coordinated method for serving small businesses, entrepreneurs and inventors with technology related product ideas.

The centers are a part of the Illinois Technology Commercialization Program (I-TEC). Another component of the I-TEC program provides early-stage financing through the Business Innovation Fund to match private funding for technology-related opportunities in Illinois (see Section VII).

For more information on the I-TEC program, contact the Illinois Department of Commerce and Community Affairs, State of Illinois Center, 100 West Randolph, Suite 3-400, Chicago, Illinois 60601; 312-917-3982.

6) Illinois Procurement Assistance Program

The Procurement Assistance Program helps Illinois businesses, especially small businesses, secure federal government contracts. The Illinois Department of Commerce and Community Affairs helped to establish and fund a statewide network of local Procurement Assistance Centers. These centers regularly help businesses identify contracting opportunities, provide bid leads, help businesses to comply with government contracting requirements, and take the business through the actual contract application process.

The Procurement Assistance Centers are located at colleges throughout the state. In addition to the local centers, IDCCA staff also work directly with Illinois businesses on procurement matters. Further information on government contract opportunities can be obtained from the Small Business Assistance Bureau at 217-785-6162 (Springfield), 312-917-6886 (Chicago), or 800-252-2923 (Hotline).

7) Illinois Resource Network

Research oriented contacts at universities can be made through the Illinois Resource Network (IRN), which is managed by the University of Illinois at Urbana-Champaign. IRN is a statewide, multi-university information system that operates through twelve search offices located throughout Illinois, and provides an electronic directory of faculty resources. The searches are free of charge. Using text words and phrases and a glossary of over 6,500 subject terms, IRN provides profiles that include names, addresses and current data on the research and other capabilities of Illinois' higher education faculty members. The IRN office is located at 1205 West Oregon Street, Urbana, Illinois, 61801, (217-333-8770).

VII. FINANCING SOURCES FOR TENANTS

In addition to overseeing the overall operation of the incubator and assisting tenants to obtain professional management services, the incubator manager has to be acutely aware of, and familiar with, potential financing sources for incubator tenants. These include pre-start-up or seed capital, as well as financing for start-up, expansion and employee training. This section of the handbook discusses and outlines sources to which the incubator manager can direct tenants for possible financial assistance. The manager should also be able to help tenants make application for available financing assistance if other help is not readily available.

A. SEED, START-UP AND GROWTH FINANCING

Several types of financing that may be needed by start-up or growing firms are as follows:

1) Seed

Seed financing includes funding needed by an entrepreneur to test a business idea. It might involve the development of a prototype or related idea development, and perhaps marketing studies or tests. As the word suggests, "seed" capital is used to "germinate" an idea and turn it into a tangible product or service, one that can be used to attract start-up capital for further product development and test marketing. This financing is generally provided by the entrepreneur and his or her family and friends.

2) Start-up

Start-up financing is used in product development and initial marketing. Companies may be in the organization process, or they may have been in business a short time (one year or less), but usually have not sold their product commercially. Commonly, such firms would have completed their product or idea development, assembled the key management, prepared a business plan, made market studies, and generally prepared themselves to do business. These are the basic steps to complete before selling a venture to the financial community for start-up financing. If the management team hasn't had experience with the financial industry, they should make every effort to develop a clear picture of their business because this is what financiers will be looking at during the financing presentation.

3) Growth

Once a company is beyond the seed or start-up financing stage, it generally will be seeking additional funding. At later periods, a firm will often need financing for various types of growth. The following are examples of several kinds of growth financing:

First Stage -- Financing provided to companies that have expended their initial capital (often in developing a prototype) and require funds to initiate commercial manufacturing and sales.

Second Stage -- Working capital for the initial expansion of a company which is making sales, and has growing accounts receivable and inventories. Although the company has clearly made progress, it may not yet be showing a profit.

Bridge -- Financing for a company expecting to go public within six months to a year.

Third Stage (Mezzanine) -- Funds provided for major expansion of a company whose sales volume is increasing, and is breaking even or profitable. These funds are utilized for further plant expansion, marketing, working capital or an improved product.

B. SOURCES OF SEED AND START-UP FINANCING

A few new sources of seed and start-up financing have appeared. The following are the most promising of these new sources:

Small Business Innovation Research--This is one important source of financing. The Federal Small Business Innovation Research (SBIR) program requires all federal agencies with research and development budgets greater than $100 million to award a portion of those funds to small companies. SBIR grants finance "risk" research and development. This program can be helpful to new ventures trying to demonstrate the commercial value of new technologies in areas of national need.

Research and Development (R & D) Partnerships--These partnerships, with the tax benefits flowing out to the investors, are also being used more each year to fund product development programs. However, the R&D partnerships sometimes leave the entrepreneurs with the problem of finding seed capital to finance certain items that cannot be charged to the development partnership.

Business Innovation Fund--This state supported capital fund is designed to stimulate the development, marketing and commercialization of new, technology-based products or services that have a significant potential for employment creation and retention. The Business Innovation Fund provides royalty financing to Illinois firms. The proceeds of the Fund must be used in cooperation with Illinois universities, colleges or not-for-profit organizations to secure technical and management assistance, or otherwise conduct commercialization research activities which lead to new or improved product or service availability. The Fund is not designed to compete with venture capital firms, commercial lending institutions or public sources of funds. While the fund may be used by growing concerns and mature businesses, it is an ideal seed capital source for start-ups and early stage businesses that exhibit demonstrated entrepreneurial talent. Details and application materials on the Business Innovation Fund can be obtained from: Illinois Department of Commerce and Community Affairs, State of Illinois Center, 100 West Randolph, Suite 3-400, Chicago, Illinois, 60601, 312-917-3982.

Illinois Venture Fund--This partially state-financed Fund provides equity capital for start-up and early-stage companies located in Illinois. The Fund normally is used for product or final product prototype development and related research, testing and production, as well as for initial marketing. The Fund is managed for the State by Frontenac Venture Capital, 208 South LaSalle Street, Chicago, Illinois 60604, 312-368-0044.

C. SOURCES OF PUBLIC FINANCING

As mentioned earlier in the handbook, the Illinois Department of Commerce and Community Affairs administers several financial assistance programs for small businesses. For more information on these programs, contact IDCCA's marketing staff in Springfield at: Illinois Department of Commerce and Community Affairs, 620 East Adams, Springfield, Illinois, 62701, phone 217-782-1460; or in Chicago at: State of Illinois Center, 100 West Randolph, Suite 3-400, Chicago, Illinois 60601, phone 312-917-6649. In addition to the IDCCA programs, the Illinois Development Finance Authority administers business loan programs. Information on these programs can also be obtained from IDCCA's marketing staff at the addresses given above or from the Illinois Development Finance Authority, 100 North LaSalle, Chicago, Illinois 60602, phone 312-793-5586. Public financing programs include:

U.S. Small Business Administration 503 Program -- This program provides long-term, subordinated, fixed-rate financing for fixed assets which have at least fifteen years of useful life. SBA loans are for healthy, expanding businesses. A maximum of $500,000 of 503 loan funds covers up to 40 percent of the total project; 50 percent is from a bank source and 10 percent equity is required. The bank portion of the loan is financed at the bank's interest rate for a term of at least ten years. The 503 debenture can be for 15, 20 or 25 years. It carries a fixed-interest rate set by equivalent Treasury Bonds plus 3/4 percent. By combining these factors, the effective interest rate is reduced and the life of the loan is extended.

U.S. Small Business Administration 7(a) Guaranteed Loan Program -- This is a program that enhances credit accessibility by guaranteeing 70-90 percent of principal and interest on a standard commercial loan. This program is for moderately strong credit risks unable to obtain conventional financing at comparable rates and terms. The money can be used for working capital, machinery and equipment, land and buildings and renovation or construction of facilities. The program guarantees 70-90 percent of the total bank loan up to $500,000. The average project is $250,000. Start-up businesses require 20-30 percent equity investment. Interest rates may not exceed 2-1/4 percent over prime if the loan is for less than seven years, and 2-3/4 percent over prime if the term is greater than seven years. Loan maturities are: working capital -- up to seven years; machinery and equipment -- up to ten years; and real estate -- up to twenty-five years.

Illinois Small Business Fixed Rate Financing Fund -- The Fund, by expanding the SBA 7(a) program, provides long-term, fixed-rate financing to Illinois companies creating new employment opportunities for low-income workers. The Fund is for strong or moderately strong credit risks that cannot obtain conventional financing at a comparable fixed-interest rate and term. The money can be used for working capital, machinery and equipment, land and buildings. Projects must be between $100,000 and $650,000. State and local sources will loan up to $100,000 per project. The structure of the loan includes 50-75 percent from a bank (70-90 percent of which is guaranteed by SBA), 15-20 percent from public funds and 10-30 percent equity. Equity requirements vary by project and company strength. Start-up businesses require 25-30 percent equity investment. Loan maturities are: working capital -- up to seven years; machinery and equipment -- up to ten years; and real estate -- up to 15 years.

Small Business Development Program -- This "Build Illinois" component program authorizes IDCCA to provide direct financing through long-term, fixed rate, low interest loans to small businesses for expansion purposes. The loan proceeds can be used for land and buildings, machinery and equipment, working capital and construction or renovation. The program provides loans which will not exceed 25 percent of the total cost of a project. The maximum amount that may be invested in any one project is $750,000. The structure of the loan includes: Bank -- 55-80 percent; Small Business Development Program -- 10-25 percent; and equity -- 10-20 percent.

Illinois Development Finance Authority (IDFA) Direct Loan Fund -- This fund provides subordinated, fixed-interest loans for 20-30 percent of the cost of fixed-asset projects. The program aids credit-worthy small- or medium-sized industrial firms that cannot obtain all of their financing from conventional sources, and is intended to create jobs in areas of high unemployment. Loan funds can be used for the purchase of land or buildings, building construction and renovation and machinery and equipment. In addition to IDFA's 20-30 percent of the project, a bank loans 60-70 percent with the remainder of 10 percent being equity. The average amount of the IDFA loan is $150,000. Interest is based on Prime plus 1-1/2 with loan maturity matching the life of the assets being financed.

Illinois Community Development Assistance Program (CDAP) -- CDAP funds help cities (with a population under 50,000 and not located in one of the six large urban counties in Illinois) to attract or expand local industry. Most CDAP economic development funds are awarded quarterly on a competitive basis, but some are set aside for unique economic development opportunities. CDAP provides low-interest subordinated loans to projects that create or retain jobs for low- and moderate-income persons. Money can be used for: land and buildings, infrastructure improvements, construction or renovation of facilities, machinery and equipment and working capital. The maximum loan under the competitive program is $400,000. Loans from set-aside funds range from $50,000 to $200,000. Loans are individually structured by the bank, the business, local officials and IDCCA. The CDAP funds are granted to local governments, which then make loans to businesses. CDAP participation may not exceed 50 percent of a project. Interest rates are flexible and vary from 3 to 5 percent to fit company needs and available cash flow.

MANAGING A SMALL BUSINESS INCUBATOR

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